Interaction between Buyer-Supplier and the Capability Development Process

Camila Kolososki, Centro Universitário da FEI

Gabriela Scur, gabriela@fei.edu.br
Centro Universitário da FEI

Abstract

In order to be more competitive firms have been increasing the outsourcing of production. The aim of this paper is to analyses the interaction between customers and suppliers of the Brazilian apparel industry and to verify how the relationships can contribute to the development of the capacities in the suppliers.

Key-words: Outsourcing; Resource-based View; Supply Chain Management, Brazilian Apparel Industry.

Introduction

The industrial sector has undergone considerable changes in recent decades, which forced companies to compete in another ways, seeking alternatives that would ensure the competitiveness. The distinctive features of this new scenario are dynamism and uncertainty of the markets. Therefore, in order to reduce costs and achieve speed and flexibility, firms are decentralizing some activities, that is, they are passing the responsibility for implementation of secondary functions to third parties as suppliers, while the company could specialize on those that effectively generate value for their business (KRAUSE; SCANNEL, 2002; KRAUSE, 1997).

In this way, outsourcing is being considered a compatible strategy since it allows quick reaction to the constant variations on demand (HOYT; HUQ, 2000). This new production framework can be configured for different kinds according to its evolution, from many ways of governance and relationship types as collaborative and long-term vision. This is mentioned in the literature as partnership, which is based on trust and exchange of information between the parties (HOYT; HUQ, 2000; GOFFIN, LEMKE; SZWEJCZEWSKI, 2006).

The strategy of outsourcing fits appropriately with the Resource-based view since it suggests that sustainable competitive advantage is achieved through the enhancement and exploitation of internal resources and competences of a company, (SCHOEDER; BATES; JUNTILLA, 2002; WILK; FENSTERSEIFER, 2003; GRANT, 1991).

The resource-based view argues that firms should explore their exclusive resources in order to ensure sustainable competitive advantages. This resources and capabilities must be valuable,
rare, inimitable and irreplaceable (BARNEY, 1991; TEECE; PISANO; SHUEN, 1997; FERRO, 2010).

Considering that the market is not static and requires constant strategies to maintain competitiveness, some authors extended the concept of RBV to dynamic capabilities. The latter refers to the ability to integrate, build and reconfigure its internal and external competences in order to create competitive advantage (TEECE; PISANO; SHUEN, 1997).

It is observed that an industry that has explored the outsourcing of manufacturing activities is the textile and clothing industry.

The global textile industry relies on the participation of developing countries, especially China, which benefit from lower costs of labor. Given the impossibility of competition in prices with Asian countries, developed countries had to adopt alternative strategies to concentrate on their core activities, which generate value for the firms. Thus, there is a wave to shift the production, which came to be outsourced, especially in the clothing sector, where the share of the labor force is more significant (LUPATINI, 2007).

In Brazil, the textile industry was hampered by the opening of the market in the 90s. It led to a significant period of crisis, which resulted in the closure of many firms. Those who survived in the market had to reach professionalization and modernization of their plants and also the outsourcing strategy (GORINI, 2000; FIRJAM; FERRAZ, 2011).

The apparel industry is the focus of this paper, first of all for being of significant importance to the Brazilian economy. The textile and clothing industry is considered to be the second largest employer in the manufacturing industry and represents 3.5% of the total GDP of the country (MDIC, 2012).

Secondly, it is the sector with the lowest level of mechanization of the textile and clothing industry, which requires intensive labor. Given the high Brazilian tax, production flexibility is a factor that emerges with great importance to ensure its competitiveness (FIRJAM; FERRAZ, 2011).

Another important point on the Brazilian apparel industry is that 97% of their companies are small and medium-sized, employing up to 99 employees, which are responsible for 56% of national production (IEMI, 2011). Moreover, it is a sector with high levels of informality (FIRJAM, FERRAZ, 2011; GORINI, 2000).

Brazil has an immature industry, provided with low levels of technology and know-how. Therefore, the aim of this paper is to analyze the interaction between customers and suppliers in the Brazilian clothing industry in order to verify how the relationships can contribute to the development of the capabilities in the suppliers.

**Methods**

The methodology used in this paper is a case study because it intends to understand how two companies interact with each other and what are the joint actions that improve their capabilities. According to Yin (1981 and 2009) the case study examines a contemporary phenomenon in depth and seeks a correlation between its boundary and context. In other words, it is a scientific approach that seeks to support theoretical concepts with reality (STUART et al, 2002).

Two research questions were determined: "what are the types of relationships between customers and suppliers in the apparel sector?" and "what are the practices used in the development of capabilities in the apparel suppliers?"
In order to answer them, it was necessary to observe the opinions from two parts: clients and suppliers. Considering the question about the type of relationship practiced among customers and suppliers, it was desired to place it in the types identified in Lambert et al (1999). In order to answer the question related to the supplier development, six constructs were created based on actions proposed by Krause (1997), Krause and Scannel (2002) and Liker and Choi (2004). The constructs, variables and indicators are shown in Figure 1.

From these two frameworks, an interview guide was applied to four suppliers and four sports buyer firms. The selection of companies was made from the clients. Then, the search was concentrated in companies in the sports industry, once it is composed by well-structured major brands, so that the focus was maintained in those who worked following the philosophy of partnership and supplier development. Still, it was a case of added provider of premium title to compare with other products, since it has a different form of relationship with other participants.

Results
Types of relationship

In general, it was found that both parties have an interest in a collaborative and long-term relationship, because they understand that this way of working can provide safety and improvements.

When asked about the concept of partnerships, it was observed that opinions were unanimous and close to the concepts presented by the literature. Clients and suppliers describe the term in a similar way and use key words to characterize it. Although there is a consensus on the concept of this word, not everyone agrees that “partnership” is really the noun to describe their relationships.

The interaction between clients and suppliers happens according to specific needs or expertise. Often, the process of supplier development occurs as a result of client attempt to meet its minimum requirements and assure its corporate interests. Arm’s-length relationships are seen by the participants as a common practice applied mainly for basic products – commodities, where price competition is even more intense and frequent in the market. For some companies, this type of relationship can be useful to certain production strategies in a positive way, such as limited editions. For other companies, it is a kind of disturbing and risky relationship, once there is no interaction and engagement, which can surely affect delivery and quality performances, besides conferring instability and conflict between the parties.

In summary, there is still much to be developed to affirm that Brazilian apparel industry players work in partnership with each other and that clients directly develop their capabilities, especially regarding technical issues. The types of relationships identified do not seem to match the types established in the literature. It would be necessary to review work conditions to define, in fact, what type of relationship to maintain, based on the strategic directions of the company. The concept of partnership seems to be used in practice as a “jargon”.

Actions for developing suppliers

In order to check what actions are performed in supplier capability development process, six constructs were created, based on papers written by Krause (1997), Krause and Scannel (2002) and Liker and Choi (2004), for the purpose of investigating and comparing the interaction level maintained between the parties.

Construct: knowing my supplier - The purpose of this construct is to verify whether, in fact, clients know their suppliers. According to Liker and Choi (2004), knowing the supplier’s way of working is a key point to allow identifying their problems and limitations.

The data leads to the conclusion that clients do not know their suppliers very well. The level of interaction is very low, being limited, basically, to product development. Typically, client visits are sporadic and occur to develop and to validate samples.

For the suppliers Apucarana and Cascavel, the level of interaction is higher than others and it is possible to observe great participation from clients. In general, the larger exchanges occur on product development and quality, but also on cost optimization studies, facilities preparation for social and quality audits and production subjects.

It was verified that both the client’s and supplier’s personnel have few engineers in action. In some clients, there is the presence of engineers, however, they do not work directly in the
production process, nor have experience in factory floor. The personnel of clients are usually composed of administrators or people graduated in fashion business. Although for some suppliers there is a higher frequency of visits, there is still no recognition that clients understand how supplier process works. This fact may be justified by the low number of engineers acting in the client-side.

It is also possible to notice the divergence of opinion between clients and suppliers. Clients, in turn, believe that their level of interaction and participation in the process is larger and more significant, once they make investments to support and develop their suppliers.

Construct: competition among suppliers- The purpose of this construct is to verify if clients use competition as a way of supplier capability development process. According to Krause (1997), Krause e Scannel (2002) and Liker and Choi (2004), the competition creates a sense of motivation and determination from the part of the suppliers that, in order to gain a particular dispute, would study different alternatives to offer better prices, quality and delivery performance, etc. enabling them to evolve their capabilities.

It is possible to verify that competition is a type of practice frequently used by clients. According to them, competition is promoted with the final goal of alerting supplier on the indicators that need improvement. This comparison occurs naturally and, in the end, for most of the clients, the idea is to readjust the production in a way which quality, delivery performances and flexibility can be in equilibrium, assuring a fair price to be paid.

It can be observed that, for the client-side, competitions are considered motivating, because it is possible to get the best out of each supplier, so that they can be constantly evolving. It is important to highlight that, in these cases, competitions are made for all types of products.

Suppliers, in turn, do not have such an optimistic opinion about competition. For them, competition is a very common practice, however, it is used in a negative way. As there is a great demand and pressure in the market to have low prices, clients and suppliers seek alternative ways in the informality, which favors the growth of an illegal industry, unfortunately in expansion in Brazil and that may lead to a breakdown of the sector.

In most of the cases, clients are opportunistic and show the suppliers the offers obtained with the competitors, as a way of threatening. If the supplier cannot propose a specific price, production orders will not be designated to this supplier. The intense search over price also has another side effect: reduction on the level of goods quality, once the cheapest raw materials are used. Thus, more and more these competitions are unfair, since they are based on different levels of products and supplier structures, who are in quest for survival. Too often, comparisons are done directly to other countries, through the simulation of nationalized prices.

Concerning the participating companies, it is verified that the competition is not meant to be exploratory, but still could be used in a more appropriate way to increase the possibilities and results from these strategies.

It was observed that clients do not maintain necessarily their products duplicated in different suppliers and that these competitions, even if indirect, which suppliers are submitted to do not have a clear target or even an engagement by the client. The price study and possible performance comparisons are important, but do not generate a special motivation and a common goal between the parties that would mobilize the supplier to improve on specific capabilities.

Construct: supplier supervision - The construct “supplier supervision” aims to verify whether clients have a concrete structure for monitoring their suppliers. According to the literature, this action is essential in the supplier capability development process, because from it, it would be
Possible to identify the points to improve and to create corrective action plans. Besides, it is possible to highlight the strong points of the supplier, recognizing its performance. The data allows us to infer that there is a concern on the part of clients to control the level of performance of their suppliers. The main indicators controlled by the clients are the DOT (delivery on time) and quality. The control is done once a month, but the dissemination of this data to the supplier can vary from company to company, when feedbacks may be done. The most critical case observed was that of the companies in the premium sector. The client Modafashion does not monitor any key performance indicators of its suppliers. At the end of each season, which means twice a year, Modafashion usually has a meeting with the managers of its suppliers, in order to give feedback about the performance of sales. Prices and quality issues may also be subjects of these meetings, however, the exchange of information is based on specific facts or perceptions occurred, not on concrete data collected over time. Modafashion recognizes how important it is to control key performance indicators and intends to start doing this kind of follow up.

In general, the presentation of performances usually occurs during previously scheduled meetings. When asked about the direct involvement in helping suppliers to get improvements, it is observed that all the clients are willing to. The clients Sportfrance and Sportbra are always available to help and to find the best alternatives, but do not develop their capabilities in solving problems, providing tools and support in order to become autonomous. Despite talking about root cause, the clients do not encourage the supplier to use it. Nevertheless, clients believe that this way of interaction also allows them to develop certain skills. The evaluation of performances can also occur from supplier to client. As the data obtained and its monitoring over time can be seen as important for strategic decision making by the client, to the supplier it is also very important to conduct this type of analysis in order to determine its major customers and to create a stable and profitable network.

From the analysis done with the suppliers, it was verified that they normally do a monitoring on the evolution of the partnership with each client, but this practice is not done in a formal way by all of them, nor presented to clients. The main performance indicators evaluated by the suppliers are: volumes and turnover growth, capacity analysis and payment conditions.

Construct: technical capabilities development - The purpose of this construct was to verify if clients contribute to the development of technical capabilities of suppliers in subjects such as quality, production, product development, etc.

It is possible to observe that clients have a great influence over the development of technical capabilities of their suppliers. Except the case of Modafashion, which does not have this intention, it is a goal for the others to help, in order to assure great levels of quality, delivery and prices. Additionally, developing technical capabilities also allow suppliers to acquire knowledge in certain processes, enabling them to produce more complicated models. Sportfrance recognizes that, in this regard, it does not act with depth. Despite having process experts who travel to different countries in order to assist suppliers, for the moment it has not had this case in Brazil. So, its staff uses supplier visits to address and to discuss issues that can impact on a very important indicator, but in fact, it is the supplier’s responsibility to come up with a solution.

Sportbra, in turn, has a technical team available to help suppliers whenever necessary. This client is very concerned about the quality of its products, which are mostly difficult to be produced and, for this reason, trains in each supplier an exclusive team for its brand production. As a result, Sportbra can get better prices, more flexibility, quality and process excellence.
Sporteuro acts in a similar way to Sportfrance. In its case, it can offer support to suppliers so that they can implement new work techniques, which can generate better results. Modafashion does not have the intention to develop technical capabilities of its suppliers. The level of interaction is really low and limited to product development. Suppliers, in general, recognize the importance of clients in this regard. For them, the main forces on clients’ side are the controls they make and the excess of requirement they ask, which generates a real need for the supplier to be adapted to this way of working. The client’s direct involvement in developing supplier technical capabilities, according to the literature, allows them to create value in the implementation of tasks, which are important to clients. Although price is a main factor for the market, only this does not guarantee any success. So the development of technical capabilities that can enable a quick product development, quality and flexibility in delivery can increase supplier’s competitiveness and generate benefits to clients. Therefore, the authors propose direct involvement of clients to assure that these capabilities would be acquired.

In the cases studied, it was found that these capabilities are developed, but indirectly. In this respect, there is much to evolve and clients can bring even greater contributions to suppliers if they prepare and devote themselves properly to do so.

Construct: dissemination of information - The fifth construct aims to determine the level of information sharing between clients and suppliers. According do Liker and Choi (2004), it is necessary to pay attention to how it occurs, so that it must be intense, but selected. It is observed that information sharing occurs satisfactorily between clients and suppliers. Both parties consider it to be useful, effective and essential for them to maintain a good relationship. The channel for information sharing is open and can occur by several means, such as e-mail, telephone, meetings, visits, etc., covering various subjects, like information about product development (technical specifications, patterns, BOM, expectations or even ideas), financial information, composition of prices, production report, among others. Regarding production aspects, Sportfrance, Sportbra and Sporteuro ask for a weekly communication report, Work in Process (WIP), which informs the status of each order in production and its evolution. Through this report, the communication concerning the progress or possible delivery problems gets easy, allowing information to arrive early and facilitate decision-making.

Regarding meetings organization, most of the respondents claimed not to have any problems. Modafashion, in turn, argues that meetings are always done for fitting tests and product verification. So, prior organization for meetings is not necessary, except in unusual cases, where other issues may be discussed.

Although it seems to be intrinsically linked to the concept of partnership, close communication and information sharing do not favor to supplier development if not done without a proper control. According to Liker and Choi (2004), this is a point of caution to be taken into account between clients and suppliers, once the high charge of information sharing reduces focus and the comprehension ability from the receptor. Companies interviewed report being aligned to what is suggested by the literature.

Construct: joint improvement activities - The purpose of this construct was to verify if clients and suppliers work alongside each other, exchanging experiences, knowledge and good practices. Also, this construct aims to verify the type of effort each part makes for promoting the relationship.

An analysis allows us to observe that, considering joint projects, clients and suppliers do not maintain much interaction and, consequently, do not share best practices. By projects, it is meant
implementation or execution of any plan of greater magnitude, which intends to obtain specific improvements in certain subject. In this case, it is not being considered creation or development of new seasons, usually conducted as projects.

Regarding suppliers, the only one who admitted to having carried out a project alongside a client was Apucarana caps. Recently, due to some clients’ requests, the supplier adapted its manufacturing site to the health and safety standards and to the requirements of social behavior, all necessary to get the certification of conformity by the Brazilian Association of Textile Retail (ABVTEX). According to Apucarana caps, it was a joint project developed alongside its clients, since the clients participated in providing a kind of consulting and training over the main points of the audit grid. The supplier contributed executing the necessary changes, in the stipulated time.

The literature encourages joint projects, as a way to increase the interaction between the parties and to keep in practice the culture of continuous improvement. Thus, both clients and suppliers can engage themselves in the activities, get responsibilities and share good practices and knowledge. From the cases analyzed, only Sportbra and Apucarana caps realized something in this direction.

It is possible to observe that there is a restriction on executing joint actions when it involves financial investments. By analyzing the level of involvement of the parties in this regard, it is noted that there is a total lack of commitment by the client in this type of action, making it clear that they want to benefit from the relationship, but do not surrender to it, providing guarantees. In contrast, clients dedicate themselves in other manners in order to develop the relationship.

To summarize the findings, the figure 1 was created. This figure is represented by a graph of radar type, in which three areas have been designated as the possible level of development of the six constructs studied in this paper, allocated in the different axes of the graph.

![Figure 1 – Graphical analysis of constructs: sports and premium fashion sectors](source: authors)

The first zone, designated as “comfortable” and indicated by the green color represents and area of comfort, whose level of development of a particular action is considered satisfactory. Obviously, improvements can still be desirable, but it is considered that the action has a certain level of maturity, allowing to obtain positive results from the way it is currently presented.

The second zone, referred to as “regular” and indicated by yellow, represents an area of discomfort when the level of development of a given action is not satisfactory, and also requires significant improvements.
The third zone, designated as “at risk” and indicated by the red color, highlights a problem in the execution of a certain action. In this way, a revision in its implementation process is necessary. It is important to notice that the construct “dissemination of information” is the only satisfactory one, since customers and suppliers have shown evidence that they are satisfied with the current way of conduction exchanges of information.

Furthermore, it is observed that the constructs “competition among suppliers” and “suppliers supervision” remain in the regular zone, leaving firms to establish joint actions. Finally, the constructs “knowing my supplier”, “technical capabilities development” and “joint improvement” are in the area of risk and lack of investment, namely the priority areas to be reworked in the process of supplier development.

**Final Remarks**

Due to the need of companies to adapt to the new competitive scenario formed from the 80s, marked by globalization and technological evolution, there was a movement of productive decentralization that encouraged companies to focus on their core activities, delegating their secondary activities to third parties. Thus, outsourcing of production emerged and was adopted by companies as a strategy that allowed them to maintain their market position through the benefits generated by cost reduction and increased flexibility.

With the adoption of this new production strategy, clients and suppliers began to interact more intensively and to maintain relationships, thus creating dependency, so that supplier selection criteria and actions for developing supplier capabilities became axes of great importance. It was observed that the relationships verified do not fully meet the concepts and formats established by the literature. The speech of win-win relationship and risk sharing works well until each part needs to defend its own interest.

Thus, it seems that any type of relationship with a minimum of interaction and continuity expectation is classified as a partnership, which makes the use of the term a “jargon”. Once the parties have decided to work in a partnership, clients must be available and prepared in a direct way. It requires structuration, resources organization and investments that allow monitoring and evolution of the supplier.

Suppliers, in turn, should be open for their clients, allowing interaction. They must be available to analyze the trade-offs and assess the potential benefits that joint actions could bring, without paradigms.

Clients and suppliers must assess each other and have frequent meetings, in order to discuss about indicators and align goals, which should be clear from the beginning. The reaction to a problem must be quick, thanks to the autonomy developed and strong communication. The improving points of each party should be evidenced, so that action plans can be created and monitored by everyone. It is very important that managers and directors also get involved.

Anyway, to have it all in practice, it is essential that clients and suppliers be in agreement about the best type of relationship to be maintained. Both parties need to make efforts and commitments, to avoid unilateral relationship.

**References**


Accesso em 20 dez. 2012.


